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INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC

UNCLAS MEXICO 002918

SENSITIVE, SIPDIS

STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GERI WORD
USDOC FOR ITS/TD/ENERGY DIVISION
TREASURY FOR IA
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)

E.O. 12958: N/A

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SUBJECT: MEXICO MARKET REACTION - SEPT. 29

¶1. (U) The Mexican stock market's index, the IPC, fell 6.4% on Monday, September 29 and the inter-bank Peso depreciated to 11.04 pesos to the dollar and to 11.15 pesos to the dollar in retail markets. President Calderon instructed Finance Minister Carstens to follow the markets' development very closely and to implement measures if necessary. The risk premium closed at 261 basis points, the highest since 2003. The Mexican Stock Market's Chairman, Guillermo Prieto, asked investors to avoid panic from gripping the market, because markets could significantly recover after the U.S. Congress approves the plan, hopefully this week. Under Secretary Werner also advised investors to be calm.

GOM: "Mexican finances are solid"

¶2. (U) In a media interview September 30, Finance Under Secretary Alejandro Werner said that Mexican financial institutions were solid as their reserves and capitalization accounted for 1.5 times the current overdue payments. With regard to the deterioration of consumer credit, he said banks have already taken the necessary steps to reduce lending, to increase their controls to issue credit cards, and recover overdue payments. He said Mexican businesses had obtained financing mostly from the domestic institutions. However, the Bank of Mexico Deputy Governor Guillermo Guemez said yesterday that larger companies in Mexico will feel the effects of the credit crunch because most of their financing was obtained abroad.

Impact of U.S. Economic Difficulties

¶3. (U) On the impact of U.S. economic difficulties on Mexico, Guemez said that obviously Mexico's economic growth will have to be revised downward, but that unlike other crises, Mexico is better prepared to face the current situation. The challenge for the government, he said, will be to strengthen the internal mechanisms that stimulate the economy, such as making public spending more effective, in particular in infrastructure and construction, and granting financing, via development banks to the agricultural sector, to SMEs, to housing and construction.

¶4. (U) Adolfo Albo, chief economist at BBVA-Bancomer, the Spanish-owned bank, said yesterday that Mexico's construction and housing sector have already slowed down and suggested that they would probably not recover before the end of 2009. Mexican tycoon Carlos Slim said this was the worse U.S. crisis since the Great Depression. He and the Chairman of the Mexican Institute of Finance Executives recommended the government and the Congress revise the 2009 federal budget, in particular revising the Mexican oil mix reference price and the expected 3% GDP growth downward. Otherwise, the government might have to begin 2009 with some spending cuts. Slim said he said he supported the Bank of Mexico's monetary policy and that the most important thing right now was to watch over

inflation to prevent rising poverty levels.
GARZA

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